



Washington, D.C. 20505

25 July 2019

Ms. Emma Best
MuckRock News
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411A Highland Avenue
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Reference: F-2019-00363

Dear Ms. Best:

This is a final response your 3 November 2018 Freedom of Information Act (FOIA) request for the following record: **a copy of CIA Working Paper 1/29/71, Panama Canal Negotiations: Torrijos vs US, as described in LOC-HAK-12-4-3-0**. We processed your request in accordance with the FOIA, 5 U.S.C. § 552, as amended, and the CIA Information Act, 50 U.S.C. § 3141, as amended.

We completed a thorough search for records responsive to your request and located one document, consisting of 19 pages, which we can release in segregable form with deletions made on the basis of FOIA exemptions (b)(1), (b)(3), and NR Record. NR Record, or "Not Responsive Record" is used for sections that do not mention the topic you requested. A copy of the document is enclosed. Exemption (b)(3) pertains to information exempt from disclosure by statute. The relevant statutes are Section 6 of the Central Intelligence Agency Act of 1949, as amended, and Section 102A(i)(1) of the National Security Act of 1947, as amended. As the CIA Information and Privacy Coordinator, I am the CIA official responsible for this determination. You have the right to appeal this response to the Agency Release Panel, in my care, within 90 days from the date of this letter. Please include the basis of your appeal.

If you have any questions regarding our response, you may contact us at:

Central Intelligence Agency
Washington, DC 20505
Information and Privacy Coordinator
703-613-3007 (Fax)

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703-613-1287 (FOIA Hotline)

The contact information for OGIS is:

Office of Government Information Services
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Contacting the CIA's FOIA Public Liaison or OGIS does not affect your right to pursue an administrative appeal.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark Lilly', with a stylized flourish at the end.

Mark Lilly
Information and Privacy Coordinator

Enclosure

DDI MEMORANDUM

CO-ORDINATED: OER, DDP, OL

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PANAMA CANAL NEGOTIATIONS: TORRIJOS VS. THE US

Summary

The Panamanian government is putting final touches on its negotiating position and will likely be ready to begin canal treaty talks in the near future. The Panamanians will stress questions of sovereignty and territorial jurisdiction while remaining flexible on the issue of control and defense of the canal. The government will concentrate also on winning greatly increased economic benefits.

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Torrijos is staking virtually all of his prestige on canal talks and he can almost taste the triumph of a successful conclusion of negotiations. He seems not to expect the talks to be drawn out and his sense of urgency is likely to increase by summer as his budget problems increase.

In order to put pressure on the US Torrijos may develop an interest in new contacts with the Communist world or raise the spectre of anti-US demonstrations and in the end paint himself into a corner from which he can extricate himself only with great difficulty or loss of face.

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The Setting

1. After a twenty-seven month apprenticeship as the de-facto ruler of the country, General Torrijos has ventured to tackle the most exalted, the most sacred, and the most heroic task of a Panamanian leader--renegotiation of the hated 1903 canal treaty. This step is not taken lightly or without some degree of trepidation, for an inept performance could carry a high political cost. Nevertheless, Torrijos appears convinced that for political, economic and even historical reasons the time is ripe for a fundamental restructuring of the US-Panamanian treaty relationship.

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2. Having weathered political challenges from within the National Guard and from the political opposition, having cowed the oligarchy and coopted the Communists and the students, Torrijos' political position is currently secure. His constant barnstorming around the country--reportedly four days of every week--in an attempt to build a new constituency and demonstrate his concern for the plight of the poor has won him a measure of popular support that has not been rivaled since the administration of Colonel Jose Ramon (1952-55). With political stability seemingly assured, at least in the short run, Torrijos is now able to turn the major focus of his attention from mere political survival to social engineering.

3. Since taking over in October 1968, Torrijos' self-styled revolutionary government has expressed a commitment to reverse the thrust of over sixty years of oligarchical rule and to promote far-reaching social and economic reform. Torrijos has found it expedient to move cautiously, however. He has discovered, as have many other Latin American military-politicians, that giving orders to a government bureaucracy does not produce the same immediate and tangible results as giving orders to a military organization. He has found that even dictators operate under political and economic constraints and that the problems of economic development and income redistribution cannot be solved by button-pushing or sloganeering. He has apparently become persuaded that building a "New Panama" will be a task of many years.

4. Having presented himself as a new phenomenon in Panamanian politics, having established his revolutionary credentials, and having promoted such reforms as could be done quickly and propagandized widely, Torrijos may have relatively little more to offer in the immediate future. In such a situation there is no better way to retain the interest and enthusiasm of a fickle populace than by ringing up the curtain on the time-tested and ever-popular Panamanian political drama--canal negotiations. The mere commencement of formal US-Panamanian talks will bring Torrijos a new measure of political legitimacy and international prestige. The negotiating period, which Torrijos does not expect to be excessively long, will provide the opportunity for him to sustain his political momentum and to mobilize popular support to an as yet unprecedented level. Finally, the successful conclusion of negotiations would represent a triumph of monumental proportions assuring Torrijos a lasting place in Panamanian history.

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5. From an economic standpoint a new treaty is equally compelling. Since the 1968 coup the level of domestic private investment has been insufficient to sustain the Panamanian growth rate at the 7 1/2 to 8 percent level which has come to be seen as normal. Concerned that any drop in the growth rate would have a serious impact on unemployment and would raise the level of political discontentment, the Torrijos government has resorted to a compensatory fiscal policy. The regime has floated short-term, high-interest loans on foreign capital markets in order to finance its pump-priming public works programs. Panamanian economic advisors had hoped that this would only be a temporary expedient and that the post-coup confidence gap between government and business could be quickly bridged. However, a combination of oligarchy dejection over loss of political power, business community suspicion about the policy direction of the Torrijos government, and a perceived lack of high-profit, low-risk investment opportunities have operated to restrain the level of domestic private investment and force the government to continue to pour funds into the economy. Budget deficits have continued to grow, government debt has continued to mount, and regular and periodic injections of foreign loans have become necessary in order to stave off a serious fiscal crisis.

6. There are no particularly encouraging signs on the horizon. Domestic private investment is not likely to stage a substantial comeback in the near term and the government will have to continue to scrounge for funds, keeping at best a few steps ahead of insolvency. Unwilling to beg the US for funds at a time when it is trying to stand eyeball to eyeball with American negotiators in defense of Panamanian sovereign dignity, and equally unwilling to submit to the scrutiny and direction of international financial institutions, the government will be forced to seek additional loans from private foreign lenders and pay the relatively unfavorable rates.

7. Almost as a reflex action when financial difficulties are encountered, Panamanian governments have long persuaded themselves that there would be no economic problems if the country were only receiving its fair share of benefits from the canal. The Torrijos government, strapped for funds as it is, is no exception. Despite the sizable indirect benefits which it derives from the presence of the canal and the Canal Zone, the Panamanian government is unimpressed with the \$1.93 million annuity it receives from the US and convinced that a new treaty would both revive the economy and provide funds

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for government-sponsored social reform programs. Torrijos is well aware that if the 1967 draft treaties had been accepted, his government would now be receiving nearly \$20 million rather than nearly \$2 million per year in direct revenue from the Canal and these additional funds would have gone a long way to alleviating the current budget squeeze. He further expects that a new treaty would open vast opportunities within the present Canal Zone for Panamanian businessmen and that this along would restore domestic private investment to a satisfactory level. Thus, Torrijos reasonably believes that his financial problems would be solved. The government would be relieved of the necessity of propping up the economy and could reduce expenditures while at the same time falling heir to substantial new revenues.

8. Not only do the Panamanians perceive compelling political and economic reasons for beginning canal negotiations at this time, they apparently believe too that from a historical perspective the time is ripe to undo the impairment of Panamanian sovereignty which resulted from the 1903 treaty. The Panamanians have long contended that the presence of a US Zone in the midst of the country, with its own flag, its own police, and its own government is anachronistic and certainly since the 1950's Panamanian nationalists have demanded in ever more strident tones fundamental changes in the treaty relationship. The 1959 and 1964 riots were indicative of the crystallization of popular Panamanian frustration with the status quo the 1967 draft treaties, though unacceptable as a basis of a solution, produced an underlying mood of expectancy within Panama. No one knows when changes will occur, but that changes will occur there is no doubt. No one knows how much Panama will gain, but Panamanian demands and aspirations have so escalated over the years that whatever is achieved may seem anti-climatic.

9. The current Panamanian mood did not develop in complete isolation. Developments in the rest of the hemisphere have contributed significantly to the feeling that history is on the Panamanian side. The nationalistic forces on the march in much of Latin America have provided a feedback into the Panamanian political system which has intensified the determination to win a new and more favorable deal from the US. Thus, when the Peruvians and Bolivians declare in effect that political independence is a sham without economic independence, or when the Chileans and Venezuelans speak of the need to more fully control their economic resources, Panama is reminded of its own situation and the lack of control over its primary resource.

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10. Looking beyond the immediate Latin American example, Panama is aware that a sympathetic world propaganda forum is available. Torrijos is apparently convinced that in a dispute with the US on the canal issue, Panama could gain the commiseration and perhaps the diplomatic support of much of the underdeveloped world. In addition, Torrijos recognizes that the Communist states would seize upon a ready-made opportunity to demonstrate solidarity with a small Latin American state against the US.

The Parameters of a Settlement

11. The touchstone of any Panamanian negotiating position begins with the three draft treaties--dealing with the present lock canal, possible sea-level canal, and defense arrangements--which had been the subject of US-Panamanian negotiations from April 1964 until June 1967. The 1967 drafts became a political football in the 1968 Panamanian elections and were never ratified. Moreover, the Torrijos government formally rejected the drafts in September 1970. Nevertheless, they remain significant in two respects: they provide the Torrijos government with some indication of the kinds of concessions which the US is prepared to grant and they represent a yardstick against which Torrijos' own negotiating performance can be measured. Torrijos, will no doubt feel pressure to surpass the achievements of the oligarchy-dominated government's of President's Chiari and Robles.

12. The 1967 draft treaties granted to Panama a number of very significant concessions. First, Panama was to receive more money. Instead of a fixed annuity of \$1.93 million, it was to be allotted a share of the canal revenues. Second, Panama was to gain territory. Some of the land which is now part of the Canal Zone was to revert back to Panama and from the remaining territory would be created a Canal Area and a number of defense areas. Third, Panama was to gain a voice in the administration of the Canal Area and the operation of the Canal. Instead of the present Canal Zone Government, the drafts proposed a bi-national administration governed by a board of five Americans and four Panamanians. Instead of US courts with exclusive jurisdiction over all crimes committed within the Zone, a Canal Area court system was postulated with an equal number of US and Panamanian judges. Fourth, the perpetuity clause of the 1903 treaty was to be abolished. Panama was to receive the present canal and related facilities around the year 2000; it would receive the new canal by 2067.

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13. The 1967 drafts have been attacked in Panama for failing to go far enough. At first glance, therefore, negotiating prospects would seem quite gloomy. The Panamanians realize, however, that the US is unwilling to relinquish control of the operation and defense of the Canal and there are no indications that they are prepared to seriously challenge the US on these points. Instead, the Panamanians are most concerned with the issues of territorial jurisdiction and economic benefits. In the main, therefore, the key interests on both sides are not really contradictory and there appears to be room for compromise. Probably the most touchy question will be that of perpetuity, yet even here there have been some indications that Panama will agree to fudge the issue, accepting periodic review of a new treaty rather than insisting on a definite termination date.

14. The Torrijos government will probably maintain as a fundamental tenet of its negotiating position that the canal be regarded simply as a joint Panamanian-US business venture--one that is no less vital to Panama than it is to the US and hence one in which Panama should be treated as a full and equal partner. The government would concede that US technology and know-how are currently necessary ingredients for the successful operation of the canal, but it would insist that Panamanians be trained and promoted rapidly to positions at every level of responsibility. The government would agree that the Canal should be run without political interference and in the most efficient manner possible, but it would also stipulate that Panama should share fully in the benefits. Thus, if the US concern for profitability is moderated by a desire to maintain moderate shipping rates, at least Panama should be granted a minimum yearly income. Given this preoccupation with equal partnership, any arrangement which provides for US control of canal operations would have to be skillfully packaged. The inequality of the 1967 draft which provided for a governing board composed of five Americans and four Panamanians would probably meet with considerable resistance and a more cosmetic formula might be necessary.

15. The government will argue, however, that neither the present ten-mile wide Canal Zone nor the present Canal Zone Government is necessary in order to ensure the continued successful operation of the Canal. Concerned about the expansion of Colon and Panama City, the Torrijos government has been particularly exercised by the fact that many areas within the Zone are either underutilized or not used at all. Thus, the government will demand that all Zone territory which is not directly related to canal operations, defense and maintenance be immediately returned to Panama.

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16. The Torrijos government has been upset by the availability of the Zone as a sanctuary for political opponents of the regime, and vexed that Panamanians in the Zone must obey US laws and regulations. Thus, the government will undoubtedly insist that all governmental functions now exercised by the Canal Zone Government revert to Panama and that Panama be allowed to exercise full political, fiscal, judicial and administrative jurisdiction in what is now the Canal Zone. At minimum, the Panamanians will seek to control all governmental functions not directly related to the operation of the canal.

17. The Panamanians have also long decried the presence and life style of a large, affluent, and separate US community adjacent to Panama's slums and resent particularly the fact that this community does not depend upon or utilize Panamanian goods and services. Panama would argue that US citizens living within the Zone should have no more privileges or benefits than they would have if they resided elsewhere in Panama, and US businesses should not enjoy advantages within the Zone which it would not ordinarily receive if located elsewhere in the republic. The government is apparently determined that commercial activities no longer remain the province of the US government or the special preserve of US business. Dedicated to the proposition that money can be made from servicing the Zonians and that Panamanians should be making this money, the government will insist that the Zone be more closely integrated into the mainstream of the Panamanian economy and may demand that all commercial activities be turned over to Panamanian control.

18. In the light of historic Panamanian sensitivities and the highly nationalistic posture of the present government, Panama will be no less jealous of its sovereignty where defense of the canal is concerned. The Torrijos government will probably take the position that any US military presence be directly related to the tactical defense of the canal and that other more strategic concerns such as hemispheric defense or anti-insurgency training activities be considered separately. The Panamanians have paid close attention to US-Spanish base rights negotiations and will probably seek some of the same advantages. Thus, demands for cash payments for bases, increased military assistance, and US-Panamanian consultation on the use of US military forces may be forthcoming.

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19. The government is concerned that the US would sign a treaty with Panama until some semblance of legality for the present government is achieved. Torrijos will likely take some steps, wherefore, to regularize the provisional junta government and again promise to hold elections. Torrijos would probably formalize acceptance of a draft treaty by means of a plebiscite.

Torrijos--The Man and His Tactics

20. If from a reading of domestic sentiment and an evaluation of the international climate Torrijos is convinced that the assertion of Panamanian sovereignty is an idea whose time has come, it is curious indeed that the government has had such difficulty in formulating a negotiating position and has shown so little initiative in beginning talks. Torrijos had expressed interest in resuming treaty negotiations in December 1969 and [REDACTED]

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[REDACTED] in June 1970 that the US was ready to begin exploratory talks. No government position was ready in June, however, and no position had been hammered out by the end of the year. Indeed, despite lengthy strategy sessions at the highest levels of the Panamanian government and despite indications by President Lakas and Panamanian Ambassador to the US De La Ossa that the government would be ready to begin talks by January 1971, to date the Panamanians still have not put finishing touches on even an initial presentation.

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[REDACTED] it is clear that Torrijos would not delegate authority on the canal issue and thus, so long as he was preoccupied with other matters little progress on a negotiating position could be expected. Torrijos' foreign policy and treaty advisors have been given little discretion and have exhibited even less initiative. Instead of presenting Torrijos with a carefully scaled series of options, they have concentrated on coaching Torrijos on the background and fundamentals of the problem. Instead of forcefully arguing a policy position, they have been content to wait until Torrijos made up his own mind and then simply to climb aboard the band-wagon.

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22. The problem, of course, is not merely that where Canal talks are concerned the wheels of government do not spin unless Torrijos is directing them, and it is not just the fact that Torrijos has been preoccupied with other tasks. Instead the key factor seems to be that Torrijos is unsure about what to ask for and even more uncertain about how much he can get from the US. His primary concern seems to be to gain economic concessions, but if he is to reserve for himself a heroic niche in Panamanian history, he must avoid any suggestion that he is willing to sell the national honor for money. He realizes, therefore, that he must put together a package which can be sold to the Panamanian people on the basis of its emotional appeal as well as on its economic palatability.

23. Torrijos was only a lieutenant colonel when he found himself in control of the government. Lacking the training, experience [REDACTED]

[REDACTED] he has had to feel his way and learn the business of government from the ground up. To his credit he has demonstrated a surprising degree of political savvy and has grown in stature during his two years as defacto head of government.

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24. Torrijos, of course wants to avoid so provoking the US that negotiations will end in failure [REDACTED]

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[REDACTED] Believing that the best defense is a good offense, and that a tough line works with the US, Torrijos is not likely to err on the side of caution in his effort to win maximum possible concessions. Nevertheless, he would probably prefer to know in advance how far he can push the US and thus be in a position to put on a good show for public consumption, while at the same time remain reasonably sure that he is not being deceived. Torrijos would probably be relieved, therefore, if the US were to take the initiative--if not to indicate what is negotiable then at least to leave him with no illusions that he could pressure the US into conceding what is in fact non-negotiable.

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25. Despite the difficulty in formualating a position and the delay in beginning talks, the Panamanians do not conceive of the actual negotiating process as a long drawn-out affair. Economic pressures calls for quick settlement

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27. The Panamanian press is government controlled and Torrijos has already demonstrated an inclination to crank up a media campaign in support of foreign policy objectives. Thus when the regime recently attempted to persuade the US to undertake repairs of the trans-isthmanian Boyd-Roosevelt highway, it was not content with conducting private diplomatic exchange but felt compelled to inject the matter into the public arena. In the future Torrijos can be counted upon to orchestrate pressure and whip up public opinion in an effort to speed up negotiations and win additional concessions.

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[REDACTED]

If he felt that negotiations were becoming deadlocked he might make some ostentatious diplomatic or commercial moves toward the Communist states or threaten to unleash students and others in demonstrations against the Zone or against US interests in Panama.

29. Torrijos is aware that what is perhaps effective as a threat may be counterproductive or even dangerous as an actual policy. Nevertheless, given [REDACTED] the nature of Panamanian politics, what starts out as controlled crisis diplomacy can easily get out of hand and the government may find that it has painted itself into a corner.

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[REDACTED]

Playing for high stakes, however, Torrijos may be willing to run some risks. He is apparently confident of his ability to read and to modify the popular mood and will undoubtedly attempt to structure the situation so that the US rather than the Panamanian government would be blamed for any breakdown in negotiations.

30. There is, of course, no inevitability that negotiations will end in failure and, indeed, dealing with Torrijos is not without advantages. Partisan political activity is at a virtual standstill and unlike most previous Panamanian leaders Torrijos does not have to worry about political pressures, at least in the short run. There will not be a cacophony of politically motivated editorials forcing him off-balance and political parties will not be falling over one another in an effort to demonstrate their nationalism or their anti-Americanism. Torrijos can control the media, keep the negotiations private and build a concession in favor of any agreement which is reached.

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